

TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Balance Sheets

December 31, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 286,161	\$ 358,078
Accounts receivable	699,986	703,259
Materials and supplies	803,803	698,926
Prepaid expenses and other current assets	4,786	29,509
Due from related parties	<u>920,778</u>	<u>1,926,613</u>
Total current assets	<u>2,715,514</u>	<u>3,716,385</u>
Property, plant and equipment, at cost		
Land and buildings	6,479,233	6,479,233
Central office equipment	16,874,220	16,719,666
Cable and wire facilities	28,765,601	28,404,909
Other equipment	1,891,967	1,815,763
Telecommunications plant under construction	<u>5,151</u>	<u>38,552</u>
	54,016,172	53,458,123
Less accumulated depreciation	<u>38,368,595</u>	<u>36,419,245</u>
Net property, plant and equipment	<u>15,647,577</u>	<u>17,038,878</u>
Noncurrent assets		
Investments in nontraded stocks	200,996	192,956
Intangible, net	<u>7,104,028</u>	<u>7,418,018</u>
Total noncurrent assets	<u>7,305,024</u>	<u>7,610,974</u>
	<u>\$ 25,668,115</u>	<u>\$ 28,366,237</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND STOCKHOLDER'S EQUITY

	<u>2015</u>	<u>2014</u>
Current liabilities		
Accounts payable	\$ 95,085	\$ 77,725
Accrued expenses and other current liabilities	<u>141,766</u>	<u>132,834</u>
Total current liabilities	236,851	210,559
Deferred income taxes	<u>7,717,300</u>	<u>8,333,300</u>
Total liabilities	<u>7,954,151</u>	<u>8,543,859</u>
Stockholder's equity		
Common stock, no par value; 10,000 shares authorized; 1,853 shares issued and outstanding	-	-
Paid-in capital	24,824,759	24,824,759
Accumulated deficit	<u>(7,110,795)</u>	<u>(5,002,381)</u>
Total stockholder's equity	<u>17,713,964</u>	<u>19,822,378</u>
	<u>\$ 25,668,115</u>	<u>\$ 28,366,237</u>

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TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Statements of Operations and Accumulated Deficit

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues		
Basic local network services	\$ 2,343,157	\$ 2,567,503
Network access services	3,428,811	3,426,457
Miscellaneous	282,860	305,425
Uncollectible revenues, net of recoveries	<u>(2,998)</u>	<u>(5,463)</u>
Total operating revenues	<u>6,051,830</u>	<u>6,293,922</u>
Operating expenses		
Plant specific operations	1,039,140	1,171,155
Plant nonspecific operations	880,158	863,268
Depreciation and amortization	2,362,847	2,090,390
Customer operations	732,751	716,348
Corporate operations	<u>1,596,390</u>	<u>1,488,308</u>
Total operating expenses	<u>6,611,286</u>	<u>6,329,469</u>
Operating taxes		
Federal and state income taxes	(270,900)	(53,200)
Other operating taxes	<u>109,699</u>	<u>97,884</u>
Total operating taxes	<u>(161,201)</u>	<u>44,684</u>
Net operating loss	<u>(398,255)</u>	<u>(80,231)</u>
Other income (expense)		
Interest and dividends	8,673	9,560
Income taxes	<u>(3,500)</u>	<u>(3,800)</u>
Net other income	<u>5,173</u>	<u>5,760</u>
Net loss	<u>(393,082)</u>	<u>(74,471)</u>
Accumulated deficit, beginning of year	(5,002,381)	(4,278,553)
Less dividends	<u>(1,715,332)</u>	<u>(649,357)</u>
Accumulated deficit, end of year	<u>\$ (7,110,795)</u>	<u>\$ (5,002,381)</u>

The accompanying notes are an integral part of these financial statements.

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TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnton Telephone Company)

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Net loss	\$ (393,082)	\$ (74,471)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	2,362,847	2,090,390
Deferred income taxes	(616,000)	(258,200)
Accretion of patronage capital certificates	(8,040)	(7,718)
Decrease (increase) in		
Accounts receivable	3,273	267,642
Materials and supplies	(104,877)	(90,302)
Due from related parties	1,005,835	(1,226,970)
Prepaid expenses and other current assets	24,723	7,773
Increase (decrease) in		
Accounts payable	17,360	(18,651)
Accrued expenses and other current liabilities	<u>8,932</u>	<u>(18,549)</u>
Net cash provided by operating activities	<u>2,300,971</u>	<u>670,944</u>
Cash flows from investing activities		
Extension and replacement of telecommunications plant, net	<u>(657,556)</u>	<u>(518,535)</u>
Net cash used by investing activities	<u>(657,556)</u>	<u>(518,535)</u>
Cash flows from financing activities		
Payment of dividends	<u>(1,715,332)</u>	<u>(649,357)</u>
Net cash used by financing activities	<u>(1,715,332)</u>	<u>(649,357)</u>
Net decrease in cash and cash equivalents	<u>(71,917)</u>	<u>(496,948)</u>
Cash and cash equivalents, beginning of year	<u>358,078</u>	<u>855,026</u>
Cash and cash equivalents, end of year	<u>\$ 286,161</u>	<u>\$ 358,078</u>

Supplemental cash flow information:

During 2014, the Company purchased certain vehicles financed with capital leases entered into by its Parent in the amount of \$136,829. The transaction was recorded in the due from related parties accounts.

The accompanying notes are an integral part of these financial statements.

TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Notes to Financial Statements

December 31, 2015 and 2014

Nature of Operations

Tidewater Telecom, Inc. (the Company), a wholly-owned subsidiary of Lincolnville Telephone Company (its Parent), derives its operating revenues primarily from providing telecommunications and broadband services in Maine. The Company extends credit at standard terms, after appropriate review, to its subscribers and domestic interexchange carriers. Telecommunications services are subject to varying degrees of regulation by the Federal Communications Commission (FCC) and the Maine Public Utilities Commission (MPUC).

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

The Company is subject to regulation of rates and other matters by the FCC and the MPUC. The Company follows the accounting prescribed by the Uniform System of Accounts of the FCC and the MPUC and Financial Accounting Standards Board Accounting Standards Codification (ASC) 980, *Regulated Operations*. This accounting recognizes the economic effects of rate regulation by recording costs and a return on investment, as such amounts are recovered through rates authorized by regulatory authorities. The Company annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Company maintains its cash in bank accounts which may exceed federally insured limits; however, the Company's policy is to invest cash in excess of those limits in government-backed securities or accounts collateralized by bank-owned U.S. government securities or surety bonds. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant risk with respect to these accounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnton Telephone Company)

Notes to Financial Statements

December 31, 2015 and 2014

Materials and Supplies

Materials and supplies are valued at the lower of first-in, first-out (FIFO) cost or market.

Depreciation

Depreciation is computed on average plant investment by primary plant accounts using the straight-line method over the estimated useful lives of the assets. The Company assesses the estimated remaining useful lives of assets on an annual basis.

During 2015, the Company revised the estimated useful life of certain of its property, plant and equipment due to the determination that these assets had a shorter useful life than originally anticipated. The change in the estimated useful lives was accounted for as a change in accounting estimate on a prospective basis effective January 1, 2015, which resulted in approximately \$282,000 in additional depreciation expense than would have otherwise been recorded. Net loss for the year ended December 31, 2015 would have been lower by approximately \$127,000 after giving effect to amounts related to cost-based revenue and income taxes.

Capitalization Policy

Additions to plant and replacements of retirement units of property are capitalized at original cost, which includes labor, material and overhead, and direct charges such as equipment costs. Plant additions were reduced by grant proceeds of approximately \$338,000 in 2014. The Company did not receive grant proceeds in 2015.

Investments in Nontraded Stocks

The Company owns Rural Telephone Finance Cooperative (RTFC) Patronage Capital Certificates (PCCs) that are recorded at their present value. The Company is accreting the PCCs to face value over a period of ten to twenty-five years, based on the expected repayment dates. These PCCs are included in investments in nontraded stocks in the balance sheets and the annual accretion is included in interest and dividend income in the statements of operations.

Intangible Asset Subject to Amortization

The intangible asset subject to amortization consists of a franchise license which is being amortized by the straight-line method over the asset's estimated useful life of thirty years.

Sales Taxes

The Company reports sales taxes on a net basis; accordingly, they are recorded as a liability when collected from customers and excluded from revenues and expenses.

TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Notes to Financial Statements

December 31, 2015 and 2014

Income Taxes

Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The Company files a consolidated tax return with its Parent. Income taxes are allocated to the Company based on the statutory rates of the consolidated group applied to its separate income before income taxes.

Revenue Recognition

Operating revenues are recognized when services are provided to customers.

Certain interstate and intrastate terminating network access revenues for the Company are set at predetermined levels subject to the provisions of the FCC Order on Intercarrier Compensation and Universal Service Fund. The effect reduces these network access revenues over a ten-year period. The remaining interstate revenues are based on estimates of the Company's telephone plant investment, operating expenses, and allowable rates of return on investments allocable to those services. Nationwide pooling of the revenues is administered by National Exchange Carrier Association (NECA), of which the Company is a member. NECA files interstate access charge tariff schedules with the FCC and accumulates and distributes pooled revenues, derived from interstate access services, to its members. The Company records the effect of NECA settlements, including retroactive adjustments, if applicable, upon notification of such settlements from NECA.

Intrastate originating network access service revenues result from charges to interexchange carriers based on applying intrastate access tariffed rates to intrastate access usage.

Subsequent Events

For purposes of preparation of these financial statements in conformity with U.S. generally accepted accounting principles, the Company has considered transactions or events occurring through March 8, 2016, which was the date the financial statements were available to be issued.

2. Telecommunications Plant Adjustment

A telecommunications plant adjustment of \$17,332,257, net of accumulated amortization of \$7,204,803 and \$6,239,934 at December 31, 2015 and 2014, respectively, which is included in property, plant and equipment in the balance sheets, is a regulatory adjustment representing the difference between the fair value of the property, plant and equipment acquired and the original cost of the plant, less the associated depreciation. The Company is amortizing the adjustment over a period of seven to thirty years which approximates the estimated remaining useful lives of the underlying assets. Amortization expense included in depreciation and amortization expense in the statements of operations was approximately \$964,900 and \$978,800 in 2015 and 2014, respectively. This amortization is not recoverable through rates, as mandated by a stipulated agreement with the MPUC.

TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Notes to Financial Statements

December 31, 2015 and 2014

3. Investment in Nontraded Stocks

Investment in nontraded stocks consists of RTFC PCCs. The noncash PCCs accrete on an annual basis and will be redeemed at their face value through 2035. Total accretion in 2015 and 2014 was \$8,040 and \$7,718, respectively. Total PCCs received through December 31, 2015 and 2014 amounted to a face value of \$312,806 and recorded present value of \$200,996 and \$192,956, respectively.

4. Intangible Asset Subject to Amortization

The intangible asset consists of a franchise license of \$9,419,705, net of accumulated amortization of \$2,315,677 and \$2,001,687 at December 31, 2015 and 2014, respectively. Amortization expense approximated \$314,000 in 2015 and 2014. Estimated amortization expense through 2020 is as follows:

2016	\$ 314,000
2017	314,000
2018	314,000
2019	314,000
2020	314,000

5. Income Taxes

The actual tax expense differs from that computed at a federal rate of 34% primarily because of state income taxes.

The components of income tax expense (benefit) at December 31 are as follows:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
<u>2015</u>			
Federal income tax	\$ 267,000	\$ (474,600)	\$ (207,600)
State income tax	<u>81,600</u>	<u>(141,400)</u>	<u>(59,800)</u>
	<u>\$ 348,600</u>	<u>\$ (616,000)</u>	<u>\$ (267,400)</u>
<u>2014</u>			
Federal income tax	\$ 173,500	\$ (211,900)	\$ (38,400)
State income tax	<u>35,300</u>	<u>(46,300)</u>	<u>(11,000)</u>
	<u>\$ 208,800</u>	<u>\$ (258,200)</u>	<u>\$ (49,400)</u>

TIDEWATER TELECOM, INC.
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Notes to Financial Statements

December 31, 2015 and 2014

Amounts payable to the parent for current income taxes are included in due from related parties at December 31, 2015 and 2014.

The income tax expense (benefit) is allocated for the years ended December 31 as follows:

	<u>2015</u>	<u>2014</u>
Operating income	\$ (270,900)	\$ (53,200)
Other income	<u>3,500</u>	<u>3,800</u>
	<u>\$ (267,400)</u>	<u>\$ (49,400)</u>

The components of the deferred tax liability (asset) at December 31 are as follows:

	<u>2015</u>	<u>2014</u>
Temporary differences related to:		
Depreciation and amortization	\$ 7,762,700	\$ 8,379,700
Other	<u>(45,400)</u>	<u>(46,400)</u>
	<u>\$ 7,717,300</u>	<u>\$ 8,333,300</u>

6. Retirement Plan

The Company has a discretionary profit-sharing plan covering substantially all of its employees. Profit-sharing expense is funded through contributions to the Plan. There were no contributions made in 2014 and contributions approximated \$28,400 in 2015.

7 Related Parties

The Company provides to and receives from related parties through common ownership various network, management, and operation services under an intercompany management services agreement, which has been approved by the MPUC. Charges between these related parties approximated:

	<u>2015</u>	<u>2014</u>
Provided to:		
Coastal Telco Services, Inc.	\$ 615,612	\$ 730,000
Lincolnville Communications, Inc.	262,571	286,000
Received from:		
Coastal Telco Services, Inc.	\$ 2,643,721	\$ 3,447,000

TIDEWATER TELECOM, INC.
(A Wholly-Owned Subsidiary of Lincolnville Telephone Company)

Notes to Financial Statements

December 31, 2015 and 2014

The Company, its Parent and its subsidiaries' assets are collateral in a loan agreement entered into by its Parent. The loan is due in quarterly installments through June 30, 2018, when the balance is due in full. The Parent's outstanding balance on the loan was \$13,169,822 and \$15,169,822 at December 31, 2015 and 2014, respectively. During 2014, the Company purchased certain vehicles financed with capital leases recorded on its Parent. The Parent's outstanding balance on these capital leases was approximately \$105,600 and \$131,000 at December 31, 2015 and 2014, respectively. The Company does not presently expect to be required to perform on its obligations under the loan agreement.

The Company and its affiliate through common ownership, Lincolnville Networks, Inc., participate in a combined study area for the nationwide pooling of certain revenues. All settlements are received or paid by Lincolnville Networks, Inc. and amounts allocated to the Company are recorded in the due from related parties.

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There was no Management Letter issued in connection with the audit of the December 31, 2015 financial statements of Tidewater Telecom, Inc.

(3005) Rate Of Return Carrier Additional Documentation (Continued)

Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010> Study Area Code	100003
<015> Study Area Name	TIDEWATER TELECOM, INC.
<020> Program Year	2017
<030> Contact Name - Person USAC should contact regarding this data	JIM SANBORN
<035> Contact Telephone Number - Number of person identified in data line <030>	2075639910 ext.
<039> Contact Email Address - Email Address of person identified in data line <030>	JIMS@INTELCO.NET

Financial Data Summary

(3027) Revenue	6051830
(3028) Operating Expenses	6611286
(3029) Net Income	-393082
(3030) Telephone Plant In Service(TPIS)	54011021
(3031) Total Assets	25668115
(3032) Total Debt	0
(3033) Total Equity	17713964
(3034) Dividends	1715332

Name of Attached Document Listing Required Information

<010>	Study Area Code	100002
<015>	Study Area Name	VIDENATER TELECOM, INC.
<020>	Program Year	2017
<030>	Contact Name - Person USAC should contact regarding this data	JIM KAMBER
<035>	Contact Telephone Number - Number of person identified in data line <030>	2075439910 WRE
<039>	Contact Email Address - Email Address of person identified in data line <030>	JIMKAM@VIDTEL.CO.NET

4005 Rural Broadband Experiment

Authorized Rural Broadband Experiment (RBE) recipients must address the certification for public interest obligations, provide a list of newly served community anchor institutions, and provide a list of locations where broadband has been deployed.

Public Interest Obligations – FCC 14-98 (paragraphs 26-29, 78)

Please address Line 4001 regarding compliance with the Commission's public interest obligations. All RBE participants must provide a response to Line 4001.

4001. Recipient certifies that it is offering broadband to the identified locations meeting the requisite public interest obligations consistent with the category for which they were selected, including broadband speed, latency, usage capacity, and rates that are reasonably comparable to rates for comparable offerings in urban areas?

Community Anchor Institutions – FCC 14-98 (paragraph 79)

4003a. RBE participants must provide the number, names, and addresses of community anchor institutions to which they newly deployed broadband service in the preceding calendar year. On this line, please respond (yes – attach new community anchors, no – no new anchors) to indicate whether this list will be provided.

If yes to 4003A, please provide a response for 4003B.

4003b. Provide the number, names and addresses of community anchor institutions to which the recipient newly began providing access to broadband service in the preceding calendar year.

Name of Attached Document Listing Required Information _____

Broadband Deployment Locations – FCC 14-98 (paragraph 80)

4004a. Attach a list of geocoded locations to which broadband has been deployed as of the June 1st immediately preceding the July 1st filing deadline for the FCC Form 481.

Name of Attached Document Listing Required Information _____

4004b. Attach evidence demonstrating that the recipient is meeting the relevant public service obligations for the identified locations. Materials must at least detail the pricing, offered broadband speed and data usage allowances available in the relevant geographic area.

Name of Attached Document Listing Required Information _____